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RUEHLO/AMEMBASSY LONDON 1620
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RUEHRH/AMEMBASSY RIYADH 0447
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SUBJECT: MOFA PAINTS AZADEGAN CONTRACT CHANGE IN POSITIVE
LIGHT

REF: TOKYO 6074

Classified By: Ambassador J. Thomas Schieffer. For reasons 1.4 (b,d)

11. (C) Ministry of Foreign Affairs (MOFA) Deputy Director General for Middle Eastern Affairs Hideki Ito told EMIN on October 20 that Inpex's reduction in ownership of the Iranian Azadegan oil field from 75 percent to 10 percent has effectively delayed the start to the project by at least a year. Ito saw this as a step backward for Iran rather than forward and emphasized that this meant Japanese funds would now flow out of Iran rather than in. He stressed that the GOJ fully understands the sensitivity of the matter and would continue to keep Washington informed at each new stage. Ito noted there was absolutely no difference in views between the two governments on the subject of Iran. He also pointed out that the Iranians often speak to the press about issues that have not been fully decided, which leads to misunderstandings.

12. (C) Comment: Ito's assertion that the United States and Japan have a unified view on Iran, at least with respect to the Azadegan project, omits Japan's long term strategy of diversifying its sources of energy including from Iran. MOFA has always supported the USG on banning trade with Iran, while the Ministry of Economy, Trade and Industry (METI) - as partial owner of Inpex - has been much more reluctant to pull the plug on the Azadegan project. For Inpex, this turn of events is a mixed blessing. On the one hand, the company has lost prestige for its failure to develop this huge and important field. On the other hand, the international opposition to Iran's nuclear program has made it increasingly politically difficult for Inpex to remain in Iran even as the terms of the deal the company struck with Iran have started to look less and less economically feasible.

13. (C) Bio note: Ito told EMIN that despite his excellent English he was actually an Arabist. Second Middle East Division official Junichi Sumi, who also attended the meeting, spoke excellent English while noting he was a Farsi specialist and had spent three years studying in Teheran.
SCHIEFFER